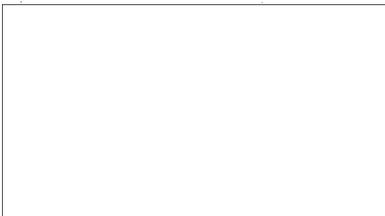


2 December 1960



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This letter is in further amplification of my note of 15 November on Soviet economic growth. We would certainly agree with you that there is a considerable element of the propagandistic in Soviet statistics. The experience of nearly a decade that we have had in utilizing and observing Soviet data leads us to conclude that Soviet statistical overstatement stems not from falsification or inflation of data so much as from the use of different statistical methodologies than those commonly employed in Western countries and from selectivity in presentation. The general relaxation in Soviet society since Stalin's departure has meant a several-fold increase in the release of economic information. This augmented statistical reservoir has enabled us to construct our own aggregative measures of Soviet economic performance. While generally somewhat below official magnitudes, they are closer to them than the estimates of Western scholars who have not had the benefit of so large a sample of production statistics. Our estimates tend to parallel Soviet indexes in direction.

Before presenting our projections of Soviet industrial production for the period, we should note that planned, as distinguished from actual, official Soviet industrial production growth rates have been conservatively underestimated since the abandonment of the Sixth Five Year Plan in late 1956. The official planned rates of industrial growth for the years 1957, 1958, and 1959 were respectively 7.1, 7.6, and 7.7 percent, while actual increases were claimed to be 10.0, 10.0, and 11.0 percent. Our own calculations indicate increases of 8.0, 7.0, and 9.0 percent. If, therefore, you desire to compare projected Seven Year Plan

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industrial production with a historical average, you should consider the underestimate which has evidently been built into the Plan. In contrast with official claims, we estimate that Soviet industrial production rose by an annual average rate of over 10 percent from 1950-57 and will increase by an average of about 9 percent through 1965.

Our comment on your projection of Soviet GNP is analogous to that on industrial production. In both cases Soviet planners, profiting from the embarrassment of overestimates of capabilities built into the Sixth Five Year Plan, have cautiously understated Seven Year Plan possibilities. In the case of national income, however, their degree of underestimate is not thought to be so great, since we believe, as you do, that agricultural growth potential is grossly exaggerated. Our estimates of growth of Soviet GNP, which measure slow growing services not included in the narrower official Marxist concept of national income, show an annual average increase of about 6.7 percent between 1950 and 1957. Our projection through 1965 is at a 6 percent annual rate of increase.

Turning now to the five conclusions you presented in support of your judgment as to a marked retardation in the rate of future Soviet economic expansion, I shall comment upon them in the order presented in your letter:

1. One can speak of mineral resources in accessible European areas as having been "creamed" only in terms of the technology of a given time. Recent advances in mining and processing techniques have markedly improved the future exploitation potential of conveniently located ore bodies. This development is particularly applicable to the vast iron ore deposits of the Kurak Magnetic Anomaly. As regards the large scale investment effort necessary to exploit the richer and larger Asiatic reserves, such a development would not be a sharp departure from past experience inasmuch as heavy investment outlays of the overhead type you mention have been undertaken east of the Urals for the past decade. A significant proportion of these outlays, such as the Siberian hydroelectric projects, will begin to pay off in the late years of the Seven Year Plan. Furthermore, consuming industries are also being located in the eastern regions, so transportation hauls will not be significantly lengthened.

2. Although the Soviets may have substantially exhausted many of the borrowing opportunities of Western technology in the direct production aspects of capital goods production, there still exists considerable potential

in consumer goods production and in the production supporting activities of producer goods production. Materials handling remains largely a manual operation even in plants with the most modern production equipment. One Soviet economist has noted that over half of the labor force in manufacturing is engaged in nonproduction operations. As copying possibilities diminish, the USSR has intensified its own technological development efforts. The widely publicized data on numbers of Soviet graduates in science and engineering is mute testimony to the scale of this research effort.

3. So long as the regime desires to maintain its rapid growth orientation, there is little reason to think that its heavy industrial investment emphasis should not continue. The growth of the economy has given the regime the wherewithal in terms of a vastly increased resource pool to maintain productive investment to the extent necessary to attain growth at the desired rate and more recently to simultaneously expand housing construction and agricultural investment. Since 1957 housing outlays have comprised a historically high proportion of total investment expenditures. The secret of Soviet success in accomplishing both purposes is their ability to channel a steadily rising proportion of GNP into investment. They have been able to favor investment and also increase consumption aided by a levelling out of defense expenditures, for whatever reason.

4. You are correct in asserting that the reduction in the work week, which has been underway since 1956, will be continued during the Seven Year Plan. However, it will be implemented at a slower pace than the unusually rapid transfer of 37 million workers from a 46 to a 41 hour week in the first ten months of 1960, all apparently without adverse repercussions on production. A further favorable effect on man-hour availabilities will be provided by the considerably enlarged natural additions to the labor force from 1963 forward.

5. You are correct in noting that future expansion of agricultural output will be largely dependent upon investment in farm machinery and in fertilizer production facilities. It could also benefit from organizational reforms. Although it would not appear to involve much sacrifice for the regime to shift investment resources

into agriculture to assure a moderate rate of growth, they have so far been reluctant to do so as regards fertilizer plants. In any event the higher costs of obtaining additional increments of agricultural output will be less than the value of the marginal products forthcoming. The amazing expansion of U.S. agricultural production over the past two decades has come about in precisely the fashion you indicate as the future pathway for Soviet agricultural production.

We hope that the foregoing comments have clarified our viewpoints and have been of some help. We shall be glad to hear from you on the unresolved issues.

Sincerely yours,

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